

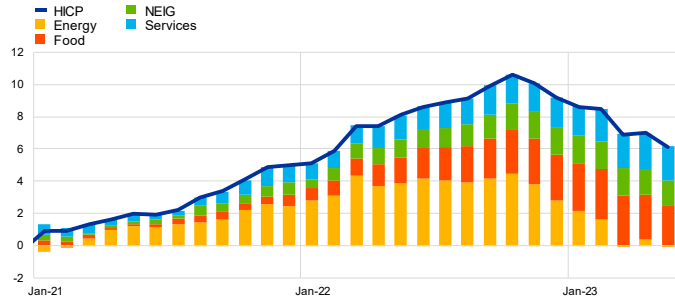


# Introductory statement in three charts

ECON hearing with the ECB President on 5 June 2023

## Contributions to headline inflation

(annual percentage changes; percentage point contributions)



Source: Eurostat.  
Note: The latest observation is for May 2023 (Eurostat flash estimate).

## Inflation

**Headline inflation has declined from its October peak and stood at 6.1% in May (flash estimate). The decline reflected decreases in all the main components.**

- While base effects have led to some variation in energy inflation in recent months, the rate declined to -1.7%.
- Both non-energy industrial goods (NEIG) and services inflation fell slightly.

**Food inflation now makes the highest contribution to HICP.**

- Food price inflation remains elevated but is decreasing and stood at 12.5% in May, down from 13.5% in April.

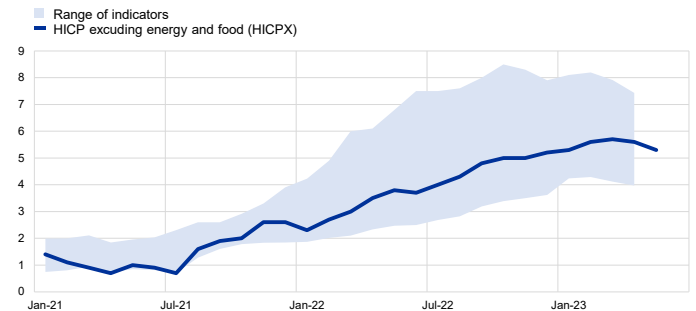
## Underlying inflation

**Indicators of underlying inflation remain high and, although some show signs of moderation, there is no clear evidence that underlying inflation has peaked.**

- HICP inflation excluding energy and food declined from 5.6% in April to 5.3% in May (flash estimate) but is expected to remain high in the coming months.
- Heterogeneity across various underlying inflation indicators remains high.
- The still high underlying inflation indicators reflect the pass-through of earlier energy cost surges and supply bottlenecks, which are expected to fade gradually.

## Indicators of underlying inflation

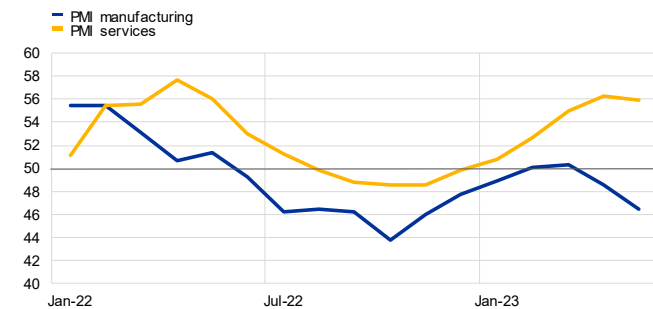
(annual percentage changes)



Sources: Eurostat and ECB staff calculations.  
Note: The latest observation is for May 2023 and includes only HICPX (Eurostat flash estimate).

## Indicators of real economic activity

(diffusion index)



Source: S&P Global.  
Note: The Purchasing Managers' Diffusion Index (PMI) reflects whether purchasing managers perceive output to be higher (>50), lower (<50) or unchanged (=50) since last month. The latest observation is for May 2023.

## Economic activity

**Growth in the euro area nearly stalled in early 2023.**

- Activity is being supported by lower energy prices, easing supply bottlenecks and fiscal policy support.
- However, domestic demand, especially consumption, remains weak.

**We see a divergence across sectors of the economy.**

- The manufacturing sector is still working through a backlog of orders, but prospects are worsening.
- The services sector remains resilient, owing in particular to the post-pandemic reopening of the economy.

## WANT TO KNOW MORE?

- [Monetary Policy Statement](#), ECB Press Conference, 4 May 2023



# Topic 1: Interaction between price stability and financial stability

## We continue to assess financial stability risks.

- Euro area banks' exposure to the recent banking sector stress which arose in other regions has been limited.
- Resilience of euro area banks is largely attributable to strong capital and liquidity buffers.
- But funding and asset quality challenges may weigh on future profitability.
- As financing conditions tighten, the resilience of euro area firms, households and banks will continue to be tested.

## Indicator of systemic stress in financial markets

(daily observations, percentages. 0 = no stress, 1 = high stress)



Sources: ECB and ECB calculations. The chart shows observations from 1 January 2020 to 19 May 2023.

# Topic 2: Effects of high inflation and monetary tightening on the real economy

## High inflation is putting a strain on euro area citizens.

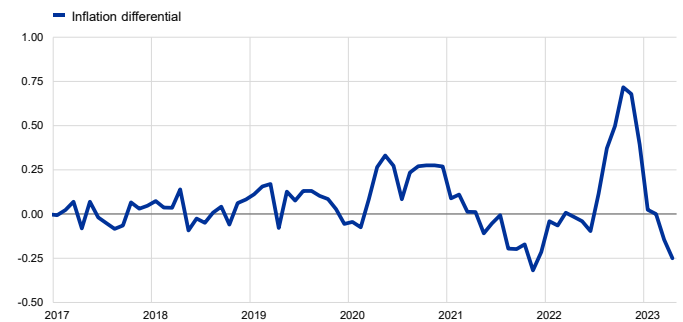
- Energy inflation imposed a notable burden on low-income households.
- As energy inflation declines, the inflation differential between low and high-income consumers starts to fade away.
- Food inflation continues to weigh on low-income households in particular.

## The full effects of our monetary policy measures are starting to materialise, but our assessment is surrounded by significant uncertainty.

- Recent ECB staff analysis indicates that the effects of monetary policy tightening on real activity and inflation can be expected to strengthen in the coming years.

## Inflation differential between the lowest and highest income households

(percentages)



Sources: Eurostat HBS, ISTAT and ECB calculations.  
Notes: The chart shows the difference between inflation experienced by the highest and lowest 20 percent (quintiles) of households, according to their income. Quintile-specific inflation rates are calculated including rents but excluding spending on "imputed rents and owner-occupied housing costs". Weights are based on the 2015 HBS and mechanically updated using the relative price developments in each COICOP sub-component. The latest observations are for April 2023.

## WANT TO KNOW MORE?

- [Financial Stability Review](#), ECB, May 2023
- [A model-based assessment of the macroeconomic impact of the ECB's monetary policy tightening since December 2021](#), ECB Economic Bulletin, Issue 3/2023